

"...We are highly concerned and deeply committed..."

James H. Melli

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CORPORATION FILE



Red Owl Annual Report

RED OWL STORES, INC. | FOR THE YEAR ENDED JAN. 30, 1971



COVER STORY: The blue arrows on our cover represent the symbol adopted by the Boxboard Research & Development Association to signify that the paper products on which it is displayed are either recyclable, or that the particular item is wholly or in part made from recycled fibres. The packages interposed upon the symbol are representative of the increasing number of Red Owl private-label products that are being marketed exclusively in cartons made from recycled fibres. The financial section of this report is also printed on paper made from 100% recycled fibre. Our continuing efforts to expand the use of this type of material is evidence of the concern and commitment of our company.



The annual shareholders' meeting will be held on June 1, 1971, at ten o'clock in the forenoon at the Executive Offices of the company.



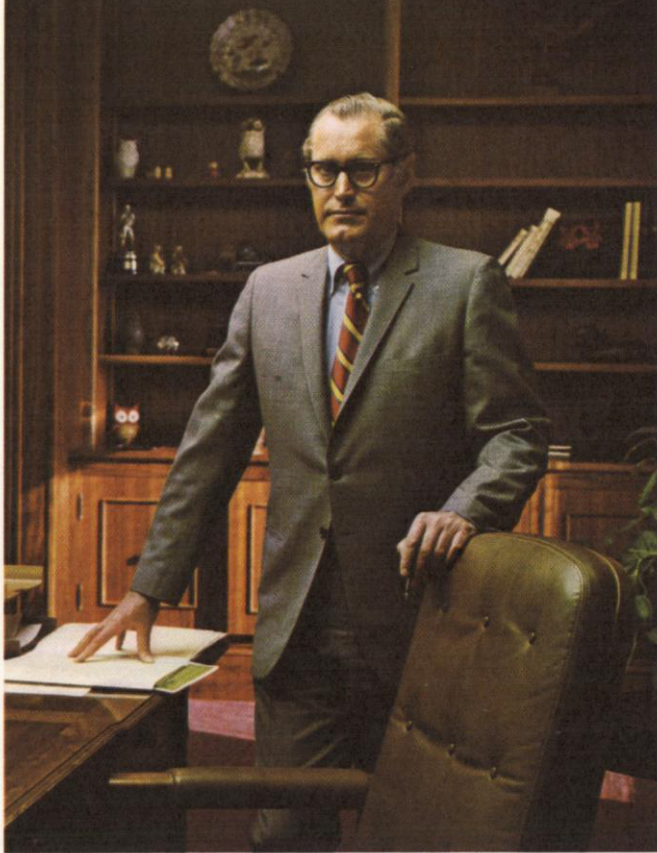
1970-71 ANNUAL REPORT

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HIGHLIGHTS:

	Fiscal Year Ended	
	Jan. 30, 1971 (52 weeks)	Jan. 31, 1970 (53 weeks)
Net sales and operating revenues	\$487,932,473	\$457,048,526
Earnings		
Net earnings	\$ 3,528,077	\$ 3,674,478
Earnings per average number of common shares outstanding . .	\$ 2.30	\$ 2.39
Number of shares outstanding at year-end	1,539,108	1,535,758
Dividends per common share	\$ 1.00	\$ 1.00
Net working capital	\$ 22,190,828	\$ 18,745,336
Ratio of current assets to current liabilities	1.89 to 1	1.70 to 1
Book value per common share	\$ 24.73	\$ 23.45



JAMES A. WATSON
Chairman of the Board

To our shareholders and employees:

It is a pleasure to report that results achieved in fiscal year 1970-71 indicate the successful launching of a new decade in our company's long history. Because of the ever-changing nature of our business, the decade of the 70's promises to be the most exciting and successful ever.

Consolidated sales in 1970 reached a new high, increasing from over \$457 million last year to nearly \$488 million this year. As in past years, our success is the result of our recognition of and prompt response to consumer concerns and to our continuing aggressive marketing programs.

The earnings for the 52-week fiscal year were second only to the record earnings for the 53-week period a year ago. Earnings for the year of \$3,528,077, or \$2.30 per share, compare to \$3,674,478, or \$2.39 per share, a year ago. The decrease in earnings was due in large part to the loss of one week of business in the current year, the non-recurring start-up expenses incurred in the opening of new physical facilities and the generally soft economic conditions which prevailed throughout our trade territory.

For the 24th consecutive year a cash dividend was paid to our shareholders. Shareholders received

25 cents per share in each quarter of the current fiscal year.

We have, from time to time during the past year, compared the year just ended with the comparable period 10 years ago. The annual report for 1960 referred to the many activities of that year as "the most ambitious program in the company's history." The increase in sales from \$274.5 million reported for the fiscal year ended February 25, 1961, to the nearly \$488 million reported this year is solid evidence of our growth and the realization of the programs begun in the 60's. In a manner similar to 1960, the year just completed will, we feel sure, be viewed as one of the most significant years in our company's history. The expansion program which encompassed the net addition of 348,000 square feet of new warehousing and processing space and a net increase of 353,000 square feet of new store space, plus the addition of 12 new franchise food stores and 3 new franchise drug stores forms the cornerstone of another decade of growth.

A number of shifts in management responsibilities have also been made to implement our marketing activities in an effort to insure continued success in established areas and to provide desired impetus in the new activities of our company. Incumbent in these moves is a continued emphasis on expansion of the time-proven Family Center concept with attendant growth in all product lines.

In addition to our expansion programs, during the year we introduced several new programs to aid our customers in maximizing the purchasing power of their food dollar. The response of the consumer to these programs has been very gratifying. We will continue to develop and expand existing programs and to implement new consumer programs in the coming year.

In recognition of our corporate responsibility and the ever-increasing concern of our customers over pollution of our environment, an Environmental Concerns Committee was formed to evaluate

existing and potential pollution problems throughout the company. Many of the recommendations of this Committee have already been implemented, and the study of problem areas and potential solutions will be an ongoing activity. Considerable emphasis is being placed on recycling of waste products, and we feel that we have made a major contribution in this area. We are highly concerned and deeply committed to the improvement of our environment, and corporate goals and policies will reflect that concern and commitment in the coming years.

1970 was a year in which a considerable amount was invested in physical property by our company

and it would have been easy to devote all of this year's report, and more, to the added facilities. However, as you review this report, you will doubtless become aware of our efforts to introduce you to many of the people in our company who guide the various phases of our business that made last year's expansion necessary and possible. Without the guidance of these people and the daily efforts of hundreds more throughout the company, from part-time carry-out boys to store managers, from warehouse workers to office personnel, the facilities would be useless. We are proud of our officers and employees, and we pay tribute in this report to all of our employees who contribute so vitally to our success.

James D. Watson

James H. Wille

JAMES H. WILLE
*President and
Chief Executive Officer*



Review of the year's Operations

CONSOLIDATED SALES AND NET EARNINGS:

Consolidated sales of \$487,932,473 for the year ended January 30, 1971 represents an increase of 6.8% over the \$457,048,526 reported last year.

The record sales reflect continuing aggressive marketing activities, new consumer programs and the store expansion program which last year added 454,000 gross square feet of new and remodeled store space.

Consolidated net earnings of \$3,528,077, or \$2.30 per share for the year, compares to \$3,674,478, or \$2.39 per share last year.

Earnings were the second highest in the history of the company and were exceeded only by last year's 53-week fiscal period.

The smaller increase in sales from a year ago and the decline in earnings in the same period can be attributed to the general economic conditions during 1970 and the substantial non-recurring startup expenses incurred in the opening of the new stores and the opening of two warehouses, a major warehouse addition and a meat service center.

DIVIDENDS:

The payment of a quarterly dividend of 25 cents per share continued during the fiscal year 1970. The fourth quarter dividend was paid on February 12, 1971, to shareholders of record on January 22, 1971. The fourth quarter dividend is reflected in the financial statements included in this report.

Valdyn W. Schulz, Vice President, Marketing (seated left) and (left to right) Arthur Smith, Director of Meat Operations, James Halloran, Director of Produce Operations, and Neal Jansen, Sales Development Manager—Manufacturing, confer on sales projections for perishables and manufactured product lines.



Neil R. Elkey, (Seated left) Vice President—Operations reviews projections for 1971 with (left to right) Orville McDonald, Assistant Treasurer, Emerson Sollom, Manager, Northern Division, Vern Tukua, Manager, Central Division, Frank Walker, Vice President, Franchise Division, and Joel Raffebuel, Manager, Eastern Division. (Not shown: Clayton Radue, Assistant Vice President, Retail Operations).

FINANCIAL DATA:

Working capital at year end totaled \$22,190,828. This compares to \$18,745,336 at the end of the previous year. The current ratio of 1.89 to 1 compares to 1.70 to 1 for the prior year.

Long term debt was increased by \$5,880,200 during the past year.

Expenditures for fixtures, equipment and leasehold improvements amounted to \$6,633,042, of which \$3,272,761 was provided by depreciation and amortization.

EXPANSION:

The fiscal year just ended brought to a close the most successful overall expansion program in the company's history. Following are the major projects completed during the year.

Distribution Facilities. To ease the critical space shortage and to meet the growing demands of our corporate and franchised stores, a total of 202,000 square feet of grocery warehouse space was added during the year. An existing 127,000 square foot facility in Albert Lea, Minnesota was leased with distribution activities commencing from there in May. A 75,000 square foot addition to our Fargo distribution center was completed in July.

In October the first merchandise was received at the newly constructed 193,000 square foot general

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Financial Statements for
Fiscal Year 1970-71
for
Red Owl Stores, Inc.

ACCOUNTANTS' REPORT

PEAT, MARWICK, MITCHELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS
MIDWEST PLAZA BUILDING
MINNEAPOLIS, MINNESOTA 55402

The Board of Directors and Shareholders
Red Owl Stores, Inc.:

We have examined the consolidated balance sheet of Red Owl Stores, Inc. and subsidiaries as of January 30, 1971 and the related statements of consolidated operations and retained earnings and source and use of consolidated funds for the fifty-two weeks then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the financial position of Red Owl Stores, Inc. and subsidiaries at January 30, 1971, the results of their operations and the source and use of their consolidated funds for the fifty-two weeks then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

March 19, 1971

Peat, Marwick, Mitchell & Co.

Statement of Consolidated Operations and Retained Earnings

52 weeks ended January 30, 1971 with comparative figures for the 53 weeks ended January 31, 1970

	52 weeks ended Jan. 30, 1971	53 weeks ended Jan. 31, 1970
Net sales and operating revenues	\$487,932,473	\$457,048,526
Costs and operating expenses:		
Cost of goods sold, including warehousing and transportation expenses	401,477,155	375,623,304
Selling, general and administrative and other operating expenses	77,670,011	72,631,004
Total costs and operating expenses	479,147,166	448,254,308
Operating earnings	8,785,307	8,794,218
Other deductions (income):		
Interest	1,238,371	889,697
Miscellaneous deductions	404,893	294,490
Miscellaneous income, principally interest	(123,034)	(191,447)
Total other deductions (income) net	1,520,230	992,740
Earnings before income taxes	7,265,077	7,801,478
Federal and State income taxes (note 4):		
Current	3,592,688	4,140,209
Deferred	144,312	(13,209)
	3,737,000	4,127,000
Net earnings	3,528,077	3,674,478
Retained earnings at beginning of year	24,778,105	22,639,280
	28,306,182	26,313,758
Deduct dividends on Red Owl Stores, Inc. common stock— \$1.00 per share	1,536,976	1,535,653
Retained earnings at end of year (note 5)	\$ 26,769,206	\$ 24,778,105
Earnings per common share	\$2.30	\$2.39

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheet

January 30, 1971 with comparative figures for January 31, 1970

ASSETS

Current assets:

	Jan. 30, 1971	Jan. 31, 1970
Cash	\$ 827,290	\$ 3,379,314
Accounts and notes receivable, less allowance for doubtful receivables \$107,559 (\$104,841 in 1970)	3,693,784	5,117,144
Merchandise inventories (note 2)	41,309,237	35,358,861
Prepaid expenses	1,406,871	1,517,259
Total current assets	47,237,182	45,372,578
Receivables due after one year and miscellaneous investments, at cost	901,244	1,560,017
Property, plant and equipment, at cost less depreciation and amortization (note 3)	31,242,510	26,054,362
Deferred charges	1,320,808	1,213,631
Excess of cost over net assets of consolidated subsidiaries at date of acquisition	106,833	106,833
	<u>\$80,808,577</u>	<u>\$74,307,421</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Current instalments of long-term debt	\$ 2,765,984	\$ 1,462,066
Accounts payable	16,525,954	16,582,162
Accrued expenses	5,113,563	4,875,681
Federal and State income taxes (note 4)	256,095	3,323,393
Dividends payable	384,758	383,940
Total current liabilities	25,046,354	26,627,242
Deferred income taxes (note 4)	1,968,540	1,824,228
Long-term debt, less current instalments included above (note 5)	15,726,286	9,846,086
Stockholders' equity:		
Preferred stock—par value \$100 per share. Authorized 50,000 shares; none issued	—	—
Common stock—no par value, stated value \$1.50 per share. Authorized 3,000,000 shares; issued 1,674,948 shares (1,671,598 in 1970) (note 6)	2,512,422	2,507,397
Additional amounts paid in by stockholders (note 7)	11,785,674	11,724,268
Retained earnings (note 5) per accompanying statement	26,769,206	24,778,105
	41,067,302	39,009,770
Less cost of 135,840 shares of common stock held in treasury	2,999,905	2,999,905
Total stockholders' equity	38,067,397	36,009,865
Commitments (note 8)	<u>\$80,808,577</u>	<u>\$74,307,421</u>

See accompanying notes to consolidated financial statements.

Statement of Source and Use of Consolidated Funds

52 weeks ended January 30, 1971 with comparative figures for the 53 weeks ended January 31, 1970

	52 weeks ended Jan. 30, 1971	53 weeks ended Jan. 31, 1970
Funds provided from:		
Net earnings	\$ 3,528,077	\$ 3,674,478
Depreciation and amortization of property	3,558,889	3,231,924
Income taxes deferred—net	144,312	(13,209)
Other non-fund charges	543,570	495,049
Total from operations	7,774,848	7,388,242
Additional long-term debt	9,302,476	1,331,411
Sales and exchanges of common stock	66,431	5,956
	<u>\$17,143,755</u>	<u>\$ 8,725,609</u>
Funds used for:		
Property, plant and equipment additions—net:		
Land and buildings	\$ 3,543,529	\$ 1,412,423
Fixtures, equipment and leasehold improvements	6,633,042	6,115,750
Less net book value of dispositions	(1,429,534)	(3,157,838)
	8,747,037	4,370,335
Cash dividends on common stock	1,536,976	1,535,653
Reduction of non-current portion of long-term debt, including debenture conversions	3,422,276	1,475,652
Increase (decrease) in other assets—net	(8,026)	102,542
Increase in working capital	3,445,492	1,241,427
	<u>\$17,143,755</u>	<u>\$ 8,725,609</u>

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

January 30, 1971

NOTE 1.

The accompanying consolidated financial statements include the accounts of the Company and all active subsidiaries. Gamble-Skogmo, Inc. currently owns approximately 81% of the Company's outstanding common stock.

NOTE 2.

Retail store inventories are valued at the lower of cost or market generally determined by the retail inventory method. Warehouse and other inventories are valued at the lower of cost (first-in, first-out or average) or replacement market. Details of merchandise inventories are as follows:

	Jan. 30, 1971	Jan. 31, 1970
Retail stores	\$19,357,933	\$17,453,773
Warehouses	20,512,755	16,982,369
Other and in transit	1,438,549	922,719
	<u>\$41,309,237</u>	<u>\$35,358,861</u>

NOTE 3.

Property, plant and equipment, at cost less depreciation and amortization are summarized as follows:

	Jan. 30, 1971	Jan. 31, 1970
Land	\$ 1,584,330	\$ 1,486,292
Buildings	10,499,399	9,127,080
Furniture, fixtures and equipment	32,754,757	28,515,218
Automotive equipment	4,494,470	4,946,076
Leasehold improvements, less amortization	3,296,555	2,659,053
Construction in progress and property held for sale	2,118,709	1,460,627
	<u>54,748,220</u>	<u>48,194,346</u>
Less accumulated straight-line depreciation	<u>23,505,710</u>	<u>22,139,984</u>
	<u>\$31,242,510</u>	<u>\$26,054,362</u>

NOTE 4.

Current Federal income taxes of the Company and its subsidiaries have been computed on a separate-return basis, although taxable income of the Company and subsidiaries will be included in a consolidated Federal income tax return of Gamble-Skogmo, Inc. and its subsidiaries.

Deferred income taxes represent net taxes applicable to major timing differences between taxable income and pretax accounting income.

NOTE 5.

Long-term debt and related restrictions are summarized as follows:

Revolving credit notes due to Gamble-Skogmo, Inc.	\$ 7,500,000
4¾ % convertible subordinated debentures due 1978	83,000
Lease-purchase obligation due 1985	399,750
Notes payable:	
5½ % to 9½ %, unsecured, due to 1995	4,535,014
4½ % to 9¾ %, secured by equipment and real estate, due to 1997	<u>5,974,506</u>
	18,492,270
Less current instalments	<u>2,765,984</u>
	<u>\$15,726,286</u>

Notes to Consolidated Financial Statements, Continued

The Company has a revolving credit agreement which provides for loans from Gamble-Skogmo, Inc. up to \$12,000,000 through December 19, 1972, with interest related to the prime rate.

Aggregate annual maturities and sinking fund requirements in the five fiscal years subsequent to 1972 are as follows: 1973, \$9,090,724; 1974, \$795,905; 1975, \$932,410; 1976, \$839,824; 1977, \$394,472.

The 4¾% subordinated debentures are convertible into shares of the Company's common stock at \$16⅔ per share, subject to adjustment under certain conditions.

Restrictions on payment of dividends (except stock dividends) and purchase, redemption or retirement of capital stock are imposed by the terms of agreements relating to the Company's outstanding long-term debt. Retained earnings at January 30, 1971 free from restrictions, based on working capital and retained earnings requirements under the most restrictive of the agreements, amounted to approximately \$2,388,000.

NOTE 6.

At January 30, 1971, 4,980 shares of common stock were reserved for issuance upon conversion of the 4¾% subordinated debentures and 29,390 shares were reserved for issuance under the Employees Qualified Stock Option Plan.

Under the qualified plan, options are granted at not less than 100% of market value at dates granted and become exercisable over a period of four years commencing one year after dates granted. Outstanding options have been granted at prices ranging from \$18.75 to \$26.75 per share. Changes during the year in stock options held by key employees are summarized as follows:

	Options Granted		Options Exercisable	
	Shares	Amount	Shares	Amount
Balance at beginning of year	25,800	\$ 610,762	11,912	\$268,190
Granted or became exercisable	—	—	5,063	120,597
Exercised	(2,750)	(56,475)	(2,750)	(56,475)
Cancelled or expired	(4,650)	(107,375)	(3,825)	(86,750)
Balance at end of year	<u>18,400</u>	<u>\$ 446,912</u>	<u>10,400</u>	<u>\$245,562</u>

NOTE 7.

A summary of changes in common stock and additional amounts paid in by stockholders for the fifty-two weeks ended January 30, 1971 is as follows:

	Common stock	Additional amounts paid in by stockholders
Balance January 31, 1970	\$2,507,397	\$11,724,268
Conversion of 4% subordinated debentures	900	9,056
Proceeds from exercise of stock options	4,125	52,350
Balance January 30, 1971	<u>\$2,512,422</u>	<u>\$11,785,674</u>

NOTE 8.

The approximate minimum annual rentals, excluding taxes, insurance and maintenance costs, under long-term leases, are as follows: fiscal years 1972-1976, \$6,775,600; 1977-1981, \$4,420,000; 1982-1986, \$2,019,000; 1987-1996, \$742,000. In addition, the Companies have entered into agreements to lease store properties at new locations for initial periods of 12 to 20 years at minimum annual rentals which will aggregate approximately \$229,000.

NOTE 9.

The Company and its subsidiaries contribute to a pension and thrift-sharing plan covering all regular full-time employees, other than employees covered by labor-management plans. Pension and thrift-sharing expense for 1971 and 1970, excluding the expense of labor-management plans, was \$689,450 and \$646,599, respectively, which includes normal cost and interest on prior service cost. The actuarially computed value of vested benefits is fully funded.

How the sales dollar was divided...

85.8¢

Merchandise, Transportation & Handling

12.0¢

Wages, Salaries, Employee Benefits

.8¢

Income Taxes

.7¢

Depreciation and Amortization

.4¢

Reinvested

.3¢

Dividends



Ten Year Comparative Figures

FISCAL YEAR ENDED IN	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962
(000's omitted)										
Net sales and operating revenues.....	\$487,932	\$457,049	\$405,753	\$313,328	\$337,483	\$315,524	\$304,924	\$296,475	\$300,247	\$279,188
(000's omitted)										
Earnings before extraordinary items.....	3,528	3,674	3,282	2,485	1,452	2,595	3,042	2,768	2,653	2,374
Extraordinary items, net.....	—	—	520	—	78	—	—	—	—	—
Net earnings for year.....	3,528	3,674	3,802	2,485	1,530	2,595	3,042	2,768	2,653	2,374
Dividends on common stock.....	1,537	1,535	1,531	1,521	1,533	1,492	1,419	1,350	1,217	1,110
Net earnings for year retained in business	1,991	2,139	2,271	964	(3)	1,103	1,623	1,418	1,436	1,263
Per average number of common shares outstanding:										
Earnings before extraordinary items	2.30	2.39	2.15	1.64	.95	1.74	2.04	1.85	1.80	1.71
Extraordinary items, net.....	—	—	.34	—	.05	—	—	—	—	—
Net earnings.....	2.30	2.39	2.49	1.64	1.00	1.74	2.04	1.85	1.80	1.71
Dividends per common share.....	1.00	1.00	1.00	1.00	1.00	1.00	.95	.90	.82½	.80
Net working capital (000's omitted) ..	22,191	18,745	17,504	17,731	18,936	14,881	16,226	16,322	18,356	14,918
Ratio of current assets to current liabilities.....	1.89 to 1	1.70 to 1	1.74 to 1	1.81 to 1	2.01 to 1	1.75 to 1	1.92 to 1	1.95 to 1	2.18 to 1	2.08 to 1
Stockholders' equity (000's omitted) ..	38,067	36,010	33,865	31,334	30,216	29,604	28,745	27,073	26,148	22,146
Common shares outstanding	1,539,108	1,535,758	1,535,398	1,522,348	1,513,028	1,481,476	1,491,681	1,480,221	1,498,106	1,404,266
Book value per common share.....	24.73	23.45	22.06	20.58	19.97	19.98	19.27	18.29	17.45	15.77
Number of common shareholders.....	2,207	2,222	2,253	2,286	5,270	4,501	4,123	4,249	4,182	4,078
Number of stores at close of year:										
Retail (including drug and restaurant)	218	218	224	217	235	207	204	195	195	172
Franchise and Wholesale *	272	274	274	278	494	484	474	454	450	426
Total sq. ft. retail stores.....	3,124,446	2,869,570	2,853,081	2,697,541	2,912,260	2,583,209	2,510,275	2,324,218	2,340,341	2,076,306
Number of employees (including part-time)	10,000	9,400	9,200	8,800	8,400	8,025	7,850	7,600	7,700	7,400

*1968 Reflects disposition of Denver wholesale accounts.

NOTES: Comparative figures have been adjusted, where applicable, for the two-for-one stock distribution on March 22, 1963, to holders of record on March 15, 1963.

Due to change in fiscal year-end, 1968 covers a 48-week period.

Review of the year's operations continued

merchandise distribution center in suburban St. Paul, thus signifying a long awaited and much needed move from the older 88,000 square foot facility in St. Paul that had serviced Snyder Drug Stores. This highly mechanized facility will handle the distribution of nearly 20,000 general merchandise items offered through our company's drug, food and Family Center outlets. Representing an increasing percentage of the total sales dollar with a higher gross profit margin general merchandise plays a significant and growing role in the market philosophy of our company.

Meat Service Center. To provide fresher meats of a consistently high quality to the consumer, a 41,000 square foot meat service center was constructed adjacent to the Hopkins distribution center and commenced operations in August. Stringent standards established by our highly qualified meat buying and processing staff, together with continuous U. S. Department of Agriculture inspection of all products moving through the center, insure that the customers of the stores served by the facility will receive the best available meat at the lowest possible prices. Within a few hours of delivery to the center, selected beef quarters are cut into primal cuts which are trimmed of excess bone and fat and immediately wrapped in vacuum sealed Cryovac bags. These cuts are then

The movement of goods to the stores and the processing of certain goods and commodities are the responsibility of Glenn R. Anderson, Vice President, Distribution and Manufacturing (standing center), and his staff, (from left to right) Allen Peterson, Manager, Coffee, Prepared Foods and Packaging Operations, Bruce Gethin, Director of Distribution, Alan Greene, Administrative Assistant, John Braff, Traffic Manager, Harold Hoffman, Director, Bakery Operations, William Smith, Manager, Plant Engineering & Maintenance and Gene Ebner, Manager, Farmdale Farm.



Company strategy in union contract negotiations commands the attention of Willard J. Carlson, Vice President, Labor Relations and George Bloom, Labor Relations Representative.

placed in the cooler for proper aging before shipment to the stores.

Delicatessen and Prepared Foods. The growing demand of the consumer for prepared foods is also reflected in our expansion program. 14,000 square feet of the meat service center was allocated to the delicatessen kitchen which had previously been confined to a limited space in the Hopkins distribution center. The new facility incorporates many advanced features and will insure a continuous supply of high quality U.S.D.A. inspected, private-label dressings, sauces, frozen pizza and a variety of delicatessen foods.

Retail Outlets. In keeping with the trend to one-stop shopping, four new Family Center stores encompassing a total of over 200,000 square feet of floor space were completed during the year. In addition, ten new or replacement conventional stores were opened and major remodelings with attendant expansion were completed in four stores, bringing the total new store space added during the year to over 353,000 net square feet. This compares with 272,000 square feet of space added during the previous fiscal year. Also during the year five company-owned food stores were converted to the franchise program. Three unprofitable stores, totaling just over 19,000 square feet of space, were closed during the year.

MARKETING AND CONSUMER PROGRAMS:

Additional markets were converted during the year to

the low-price, non-trading stamp program. The continued success of this program in selected areas is indicated by the favorable impact on sales and earnings in those markets.

During the year our company implemented three highly significant consumer service programs in selected markets.

COMPAR-A-PRICE,TM a program which permits immediate comparison of the cost per unit of measure of competing brands or various sizes of product lines, was introduced in the Minneapolis-St. Paul and the Milwaukee metropolitan areas. Concurrently we introduced the "Freshness is No Secret at Red Owl" program which enables the customer to verify the freshness of a sizeable number of products simply by referring to a free booklet containing the dating codes



The laws and regulations of the several states and the Federal Government affect every area of our company's operations. Richard C. Johnson, Vice President, Secretary and General Counsel (left) and Gerald C. Heetland, Associate Counsel, discuss the South Dakota dairy law.

used in our stores.

Citing rigid quality and cutting standards, controlled aging, rigid temperature controls and retention of nearly 100% of the natural juices of the meat, the company launched its TENDR CARETM meat program near the end of the fourth quarter in an effort to acquaint the consumer with the many advantages accruing from the meat service center operations. Favorable customer response was immediate and as a result beef tonnage has increased by 18%.

The consumer panel and "Direct Line to the President" continue to be vital links with our custom-



Employee Benefit Programs, hiring, training, records and other personnel functions for the company's 10,000 employees are administered by a staff headed by Craig Kessel, Vice President—Personnel, (standing left) and including (left to right) Ed Nelker, Security Representative, Roger Putnam, Personnel Director, Charles Jelinek, Insurance Supervisor, Gary Sanders, Employment Administrator, Bruce Bausman, Training Supervisor and Richard Koenders, Personnel Field Representative.

ers as we strive to benefit from their ideas and to keep abreast of their wants and needs.

ENVIRONMENT:

In recognition of our corporate responsibility toward

William C. Ferril, Vice President, Finance, and Treasurer (left) reviews a proposal offered by Hanley Anderson, Office Manager as Lowell Uber, Manager of Financial Services (standing left), Fritz Biermeier, Manager—Information Services, Phil Henderson, Credit Manager and Wes Melgren, Controller, look on.



our environment and in an effort to respond affirmatively to the pollution problems, an Environmental Concerns Committee composed of employees from all facets of our company's operations has been established. As the result of their study and recommendations, the company has adopted a "no-incineration" policy for the metropolitan Minneapolis-St. Paul area, with existing incinerators being replaced by baling machines. Steps are also being taken to virtually eliminate all emissions from processing operations. Considerable emphasis is being placed on the use of packaging materials made from recycled waste paper and the encouragement of the recycling of other waste products through cooperation with neighborhood and civic groups. During the year our company returned 3,400,000 pounds of scrap corrugated cartons to the



The Advertising, Promotion and Consumer Relations functions are vital to the success of our company. Raymond O. Hegre, Vice President, Advertising/Sales Promotion (standing right) is assisted by an able staff including (left to right) Kathryn Seagrath, Manager, Consumer Relations, Mel Anderson, Manager, Advertising Operations, Henry J. Wudlick (standing left) Manager, Advertising Administration, Paul Joyce, Manager, Packaging Design, Joanne Ford, Manager, Special Projects, and Bruce Erickson, Manager, General Merchandise and Snyder Advertising.

paper mills from the Twin Cities metropolitan area alone, a figure that is expected to double next year. New ways to make a positive and meaningful contribution to the environmental battle and to respond to customer concerns will be studied and implemented wherever feasible.

MANAGEMENT CHANGES:

During the year, James H. Wille, President, was

named Chief Executive Officer and Lloyd D. Berkus, President of Snyder's Drug Stores, Inc. was elected a Vice President of Red Owl. Subsequent to year end, Wesley A. Mellgren was elected Controller and Frank Walker, Assistant Vice President and Manager of the Franchise Division was elected a Vice President.

PEOPLE:

The Company recognizes the importance of people throughout the organization and accordingly continues to emphasize the training and development of employees.

The growth of the Company has increased the opportunities for our employees, and we are pleased to report that during the past year many employees, in addition to the officers mentioned above, advanced to positions of greater responsibility.

Illustrative of the efforts made to develop our employees is the Advisory Council, a group of middle management employees representing all sectors of the Company, who meet periodically to review and discuss matters of importance to the Company. Frequently the Council will undertake basic research and recommend new company approaches.

MERGER:

During the year Gamble-Skogmo, Inc. and Red Owl Stores, Inc. announced that consideration was being

The Advisory Council has been the training ground for many of the officers of the company. Current members include (seated left to right) Leroy Kieffer, Joel Raffebuel, Willard Carlson (Officer-in-charge), Neal Jansen (Chairman), Bruce Gethin, Gerald Heetland, and Alan Greene; (standing left to right) Charles North, Roger Putnam, Richard Cleveland, Richard Rentz, Fritz Biermeier, Emerson Sollom and Hanley Anderson.



given to a statutory merger of the two companies and that investment banking firms had been retained to recommend an appropriate basis for the merger. A. G. Becker of Chicago was appointed to represent Gambles, and Goldman, Sachs & Co. of New York City and Piper, Jaffray & Hopwood of Minneapolis were appointed to jointly represent Red Owl. Recommendations of the firms were included in an Agreement and Plan of Reorganization and Agreement of Merger pursuant to which Red Owl Stores, Inc. would be merged into a wholly owned subsidiary of Gambles. This Agreement, and the recommended conversion ratio of .875 of a share of Common Stock of Gambles for 1 share of Red Owl Common Stock, was approved by the respective Boards of Directors subsequent to



The rapid growth of the Franchise Division is due in no small part to the efforts of Frank L. Walker (left), Vice President, Franchise, Leonard Egge (center), Manager, Real Estate Development, and Robert Parker, Sales Manager, Franchise. (Not shown: Herman Carlson, Assistant Manager, Franchise Division).

year end. Complete details of the proposed merger will be set forth in the Proxy Statement.

THE FUTURE:

The extensive expansion of retail store and distribution facilities during the year will provide the foundation for continuing growth through the decade of the 70's. The addition of new stores and franchise accounts is expected to continue this year. The future is particularly bright in general merchandise sales and profits and in food and drug franchising operations. Major emphasis in the coming years will also be



Lloyd D. Berkus, Vice President, General Merchandise and President, Snyder's Drug Stores, Inc., discusses the move to the new general merchandise warehouse with Snyder Vice Presidents, William H. Smith (left), Merchandising, and Leroy L. Kieffer (right), General Merchandise. (Not shown: Charles North, Vice President, Snyder Retail Operations).

directed toward increased expertise in the handling of perishables, continued improvement in mass merchandising techniques, streamlining of distribution operations and reduction of expenses in all areas of operation. Efforts in these areas, coupled with planned growth and aggressive marketing programs, will contribute significantly to the achievement of our goals.

James E. Gottlieb (right), Vice President, Real Estate and R. Thomas Johnson, Real Estate Manager, review plans for a proposed shopping center.



DIRECTORS

GLENN R. ANDERSON, *Vice President, Red Owl Stores, Inc.*
ALF L. BERGERUD, *Of Counsel, Haverstock, Gray, Plant, Mooty & Anderson*
LLOYD D. BERKUS, *Vice President, Red Owl Stores, Inc., and President, Snyder's Drug Stores, Inc.*
LOUIS E. DOLAN, *Vice Chairman of the Board, Secretary and General Counsel, Gamble-Skogmo, Inc.*
NEIL R. ELKEY, *Vice President, Red Owl Stores, Inc.*
WILLIAM C. FERRIL, *Vice President and Treasurer, Red Owl Stores, Inc.*
BERTIN C. GAMBLE, *Chairman of the Board, Gamble-Skogmo, Inc.*
JAMES E. GOTTLIEB, *Senior Vice President, Gamble-Skogmo, Inc., and Vice President, Red Owl Stores, Inc.*
ARTHUR G. JOHNSON, *Executive Vice President, Gamble-Skogmo, Inc.*
L. W. RIXE, *Senior Vice President and Controller, Gamble-Skogmo, Inc.*
JAMES A. WATSON, *President, Gamble-Skogmo, Inc., and Chairman of the Board, Red Owl Stores, Inc.*
JAMES H. WILLE, *President and Chief Executive Officer, Red Owl Stores, Inc.*

OFFICERS

JAMES A. WATSON, *Chairman of the Board*
JAMES H. WILLE, *President and Chief Executive Officer*
GLENN R. ANDERSON, *Vice President, Distribution and Manufacturing*
LLOYD D. BERKUS, *Vice President, General Merchandise*
WILLARD J. CARLSON, *Vice President, Labor Relations*
NEIL R. ELKEY, *Vice President, Operations*
WILLIAM C. FERRIL, *Vice President, Finance, and Treasurer*
JAMES E. GOTTLIEB, *Vice President, Real Estate*
RAYMOND O. HEGRE, *Vice President, Advertising and Sales Promotion*
RICHARD C. JOHNSON, *Vice President, Secretary and General Counsel*
CRAIG K. KESSEL, *Vice President, Personnel*
VALDYN W. SCHULZ, *Vice President, Marketing*
FRANK L. WALKER, *Vice President, Franchise Division*
WESLEY A. MELLGREN, *Controller*
JOHN Y. LOPER, *Assistant Vice President, Store Design & Maintenance*
CLAYTON C. RADUE, *Assistant Vice President, Retail Operations*
SHELDON V. DURTSCHKE, *Assistant Secretary*
ORVILLE G. McDONALD, *Assistant Treasurer and Analyst, Retail Operations*



T.M.

RED OWL STORES, INC. / SUBSIDIARY OF **GAMBLE-SKOGMO, INC.**

For more information about the activities and policies of Red Owl Stores, write to... RED OWL STORES, INC., Post Office Box 329, Minneapolis, Minnesota 55440. STOCK TRANSFER AGENTS: Northwestern National Bank of Minneapolis, Bankers Trust Company of New York. REGISTRARS: First National Bank of Minneapolis, Morgan Guaranty Trust Company of New York. AUDITORS: Peat, Marwick, Mitchell & Co.